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STATE FOR NEA/ELA, NEA/RA  
USAID FOR ANE/MEA MCLOUD AND RILEY  
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SUBJECT: OPIC CONSIDERING LOW COST MORTGAGE PROGRAM IN EGYPT

Sensitive but Unclassified. Please protect accordingly.

¶1. (SBU) OPIC has been trying for several years to provide financing to Egypt's mortgage market. As part of that effort, OPIC VP Robert Drumheller visited Cairo February 5-6 to discuss an OPIC proposal to guarantee a loan to a local bank to provide low cost mortgages to Egypt's nascent mortgage market. While liquidity is not a problem in the Egyptian banking system, the rates that banks must charge are quite high for the average consumer, and an OPIC guarantee would likely result in lenders being able to lend at slightly lower rates than currently prevalent in the market. Low income borrowers are an increasing portion of the market, as they are given an up-front cash subsidy from the government if they qualify financially.

¶2. (SBU) Drumheller met with representatives from Commercial International Bank (CIB), Egypt's largest private bank and the only one with significant U.S. ownership. The CIB reps responded favorably to the guarantee proposal, but asked that OPIC consider providing a loan, rather than a guarantee. Drumheller agreed to provide CIB with a proposal for a direct loan of approximately \$200 million for 20-25 years, which CIB would then either offer as low-interest, 20 year mortgages directly to "category C" (families earning under LE 18,000/year, about \$3300) customers, or alternatively, act as an agent and re-lend the money to other banks (most likely the state-owned banks) and/or mortgage finance companies which would then offer the low cost mortgages. The logic of the latter scheme is that the state-owned banks have more branches and greater contact with category C customers than does CIB. CIB agreed to provide OPIC with a feasibility study for raising money under the loan guarantee scheme that OPIC originally proposed.

¶3. (SBU) Drumheller also met with USAID-funded Egyptian Financial Services Project contractors to discuss property registration. The registration process is still quite complicated, but the time required for registration has been cut from up to 10 years to approximately 6-9 months, at least in the new urban communities, which are serving as pilots for the new registration system, before it is implemented in older areas of Cairo and other large Egyptian cities.

¶4. (SBU) At a lunch with representatives from the Egyptian Mortgage Refinance Company, the Egyptian Housing Finance Company, the Arab Land Bank, Benchmark Capital Corp., Piraeus Bank and the Ministry of Investment, all of the guests expressed interest in the OPIC proposal to inject the mortgage market with low-cost, long-term liquidity, and discussed several possible ways OPIC could structure the loan, bearing in mind that any deal would have to involve an U.S. entity, per OPIC rules. The main question the bankers asked, as did CIB management, was what the interest rate for the loan would

be. The rate would have to be low enough to make the OPIC loan attractive to whatever entity ultimately receives the proceeds.

¶15. (SBU) Drumheller also met with Lobna Helal and Atef Ibrahim, Sub Governors of the CBE, to discuss how CBE could assist in "swapping" the dollars that OPIC has to loan for Egyptian Pounds. Ibrahim was receptive to the idea of CBE involvement in a possible swap, and agreed to consider how it could be done, once OPIC has provided CIB with an actual loan proposal. The next step is for OPIC to come back to CIB with a loan proposal.

¶16. (SBU) Comment: While OPIC's cost of funds are significantly lower than the typical rate obtainable by Egyptian banks, the ultimate cost of the loan remains to be seen. OPIC's rate will likely be attractive, but for the loan proposal to be successful, the rate will have to be lower than prevailing market rates, after the intermediary lenders have taken their spreads.

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